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July 27, 2006

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: NSTAR Electric Company, D.T.E. 06-40

Dear Secretary Cottrell:

Enclosed for filing in the above-referenced matter are the responses to the Information Requests set forth on the accompanying list.

Thank you for your attention to this matter.

Sincerely,

Robert N. Werlin

Enclosures

cc: Service List

Responses to Information Requests

AG-4-1
DTE-4-1
DTE-4-3
DTE-4-4
Attachment AG-2-6 (inadvertently omitted in previous filing)

Information Request AG-4-1

Please provide a detailed analysis of the differences between the revenue requirement calculations that are presented in Exh. CLV-7 (FERC precedent) and the Department's precedents for determining distribution rates. Recalculate the 2005 13.8kV revenue requirement based on the Department's precedents. Present the response in the same format as used in response to DTE-1-21. Include all supporting workpapers, calculations and assumptions. Provide a working Excel spreadsheet model supporting the response and including the calculations shown in Exh. CLV-7.

Response

Both the FERC and the Department precedent establish revenue requirement based on cost-of-service principles, which over time, would result in only small differences in the overall revenue requirement. However, precedent from the two jurisdictions differ in the adjustment of historical costs in the calculation of revenue requirement, the timing of when the new rates go into effect and, to a lesser extent, the allowable costs included in the revenue requirement.

First, the Department uses an historical test year, adjusted for known and measurable changes to arrive at adjusted test year or "rate year" on which approved rates are based. The "rate year" calculation is predicated on the Department approving rates six months after the rate case is filed. Department-approved rates are final and not subject to refund. FERC uses a two-period approach: Period I is an historical year provided for reference purposes, and Period II is a completely forecast year on which approved rates are based. FERC allows rate to go into effect 60 days after filing, subject to a possible future refund based on hearings that may take place months and sometimes years later. To add a further complication, the current FERC rate is a formula rate, adjusted for actual results during the year in question. Thus, a 2005 FERC formula rate would be based on the actual costs in 2005. Under Department precedent, actual costs incurred in 2005 would be the basis of a 2005 test year which would not be directly reflected in rates until nearly a year later. (Assuming a rate case were filed with the Department in April 2006, based on a calendar year 2005 test year, rates would not go into effect until November 2006.)

Because of the difference in the manner by which the two jurisdictions structure the calculation of revenue requirement (historical test-year, adjusted vs. combination historical/projected), a direct comparison of results at any particular time is not feasible.

Notwithstanding the difficulty in comparing differing "test year" and "rate year" periods, the Companies have presented revenue requirement calculations using the

Department precedent that attempts to isolate the impact of including Cambridge's 13.8 kV facilities in the revenue requirement for distribution service. Please refer to the responses to Information Request DTE-1-21 and Information Request DTE-3-6 that attempt to isolate the 13.8 kV in the Department revenue requirement for the test year ended June 2005.

Excluding the differences in the application of test year and rate year, as described above, the differences in precedent between the Department and FERC are small. For example, Prepaid Pension and Post Retirement Benefits Other than Pension are included in FERC rate base, but recovered in the Pension Adjustment Mechanism for Department purposes. Other pre-payments are allowed in rate base by FERC, but are not permitted in rate base by the Department. The ratemaking treatment for FAS 109 differences between booked tax allowances at the statutory rate and tax allowances at the booked rate are handled differently under FERC and Department precedent. The Department uses an adjustment to the Allowances for Income Taxes (ARAM and Depreciation in Basis differences), whereas FERC includes the FAS 109 net balance in rate base. Department precedent permits the inclusion of an expense relating to bad debt for retail customers, but there is no similar adjustment for bad debt in FERC transmission rates.

Finally, the Companies would like to point out that they are not asking to re-set rates retroactively to what they would have been if actions had been different historically. Rather, the proposal to shift cost recovery of that portion of Cambridge's transmission rates attributable to 13.8 kV facilities at the time those facilities are reclassified as distribution is a <u>revenue-neutral</u> shift that keeps both Cambridge and its customers whole, neither gaining nor losing, by transferring the base revenues from transmission to distribution at the levels that they actually are at the time of the transfer. Anything other approach would lead to over- or under-recovery by either the customers or shareholders.

Information Request DTE-4-1

Refer to Federal Energy Regulatory Commission Accounting Release No. 15 (http://www.ferc.gov/legal/acct-matts/docs/ar-15.asp). One of the requisite conditions for the adoption of vintage year accounting is that "the cost of the vintage groups is amortized to depreciation expense over their useful lives and there is no change in depreciation rates resulting from the adoption of the vintage year accounting." Please reconcile this requirement with the Companies' proposal to revise the depreciation rates of the post-merger company. As part of this response, confirm whether the composite depreciation accrual rate for Accounts 391 through 398 (other than computer equipment) using the proposed accrual rates in Exh. NSTAR CLV-10, and revised in the Companies' response to DTE 2-6, is approximately 7.50 percent.

Response

NSTAR Electric is proposing to implement amortization rates on general plant that are consistent with the depreciation study as adjusted for the requirements of the terms of the Settlement Agreement approved by the Department in D.T.E. 05-85. The resulting depreciation rate for the existing general plant (excluding computer equipment) is approximately 7.50 percent. This rate is based on the estimated remainder of the original 15-year life adjusted to ensure it remains expense neutral. All new additions to general plant will be amortized by vintage year over a 15-year life (see Exhibit NSTAR-CLV-1, page 35, lines 12-22).

The change in depreciation rates does not result from the change to vintage year accounting. Rather, it results from the comprehensive analysis of depreciation within the overall depreciation study and the requirements of the Settlement Agreement.

Information Request DTE-4-3

Please discuss the post-merger NSTAR Electric's commitments and plans to maintain and upgrade the existing distribution system's submarine type cables from the mainland to Martha's Vineyard. As part of this response, provide the status and availability of all existing diesel generators on Martha's Vineyard that would be necessary to maintain the island's electric service reliability into the future.

Response

Please refer to NSTAR Electric's annual ***Transmission and Distribution Planning Report*** filed in D.T.E. 98-84/EFSB 98-5, at Appendix D, pp. 283-305, where the facilities that supply the Island of Martha's Vineyard are described.

Martha's Vineyard is currently supplied by four) 23 kV submarine cables emanating from Falmouth Substation #933, of which three have a 17 MVA (summer normal) capacity, and the remaining having a 7 MVA capacity, for a total aggregate capacity of 58 MVA with all four cables in service.

The supply to Martha's Vineyard also includes five) 2.75 MW diesel generators formerly owned by Commonwealth, but sold to Mirant Canal, LLC ("Mirant") as part of Commonwealth's generation asset divestiture in 1998. The total output of the five diesel generators is 13.75 MW, of which Mirant is contractually required to maintain 10 MW of firm capacity. Currently all five units are available for service, and Mirant is contractually obligated to supply 10 MW (equivalent to four units) when Commonwealth requires the output.

The total aggregate capacity of all four cables and the five generators is 68 MVA, in contrast to the Martha's Vineyard historical peak of 45 MVA (set August 13, 2003, 6 PM). For a single-contingency outage of one 17 MVA, 23 kV cable, the firm capacity available from all remaining sources is 53.5 MVA, which still exceeds historical and forecasted peak loads for Martha's Vineyard.

NSTAR Electric is currently considering an extension of the agreements for the output of the diesels at the Oak Bluffs and West Tisbury generator sites. These agreements, which are embedded in the FERC-approved Interconnection and Site Agreements for the units, are scheduled to expire in December, 2008. The extension of these contracts would ensure adequate time for NSTAR Electric to permit, design, and construct additional T&D infrastructure to supply Martha's Vineyard, as required.

Information Request DTE-4-4

Refer to D.P.U./ D.T.E 97-93, at 6 (1997). According to this Order, Boston Edison considers facilities which convert transmission voltage to distribution voltage, such as its 115/14 kV and 115/24 kV substations, as distribution facilities. Please clarify whether all 115/14 kV and 115/24 kV transformers and 115 kV facilities at these stations for Cambridge and Commonwealth will be reclassified as distribution facilities. As part of this response, provide the demarcation line between transmission and distribution facilities at these substations.

Response

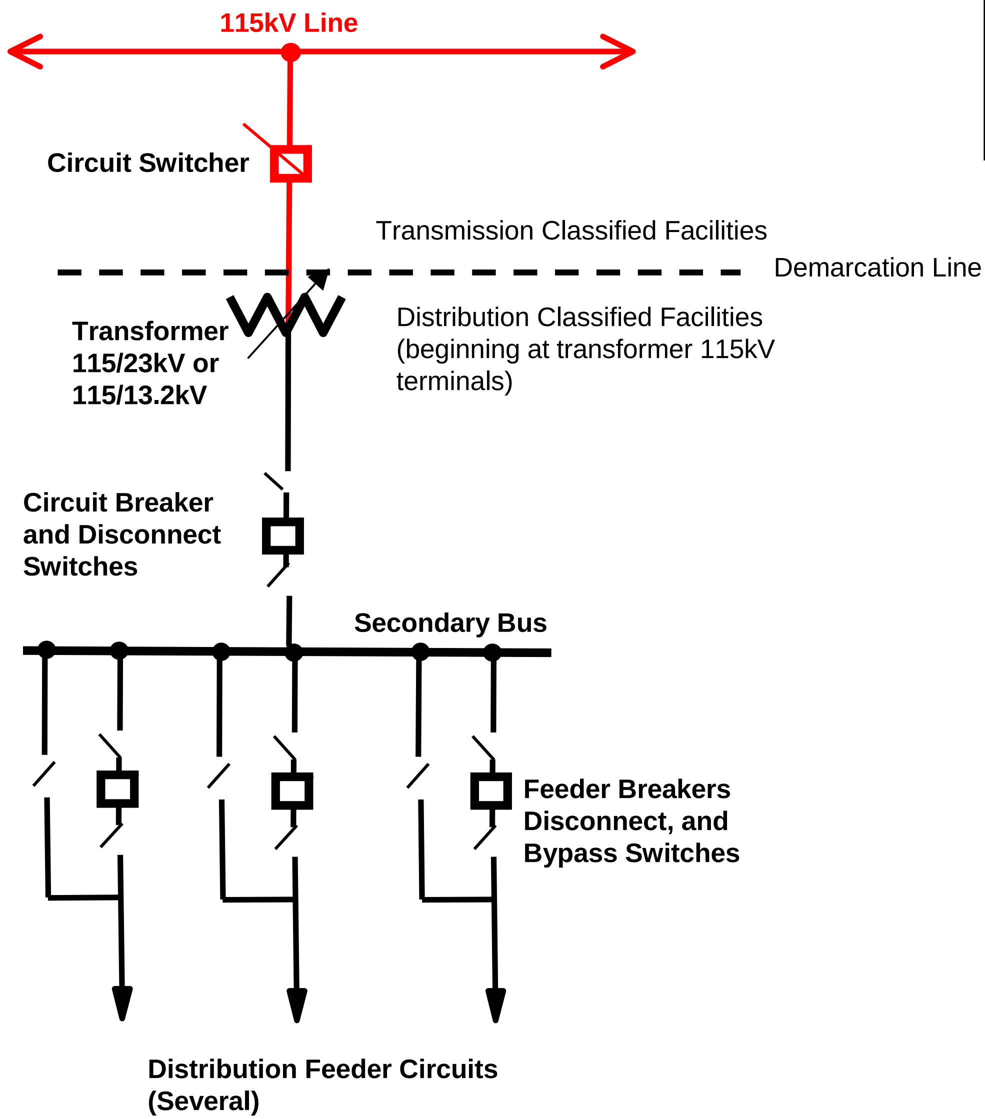
Cambridge has requested reclassification of the portions of the 115/13.8 kV substations and ancillary equipment that operate at the 13.8 kV as distribution facilities for rate purposes. The point of demarcation between transmission and distribution facilities is on the line section between the 115 kV circuit breaker (an isolation, protection, and switching device) and the 115 kV terminals of the substation transformer. Currently, Cambridge's 115 kV/13.8 kV substations contain 115 kV facilities that have been classified as transmission on Cambridge's book of accounts. These 115 kV facilities will not be reclassified as distribution-related facilities.

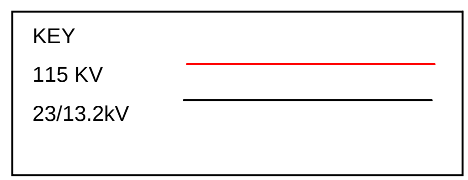
Commonwealth classifies facilities at the 115/23 kV and 115/13.2 kV substations that operate at the 13.2 kV/23 kV level as distribution facilities. Those facilities that operate at the 115 kV level are classified as transmission. The step-down transformers that are rated at 115/23 kV and 115/13.2 kV operate at their respective lower voltage levels and are classified as distribution; thus, no reclassification of these facilities is needed. The point of demarcation between transmission and distribution facilities is on the line section between the 115 kV circuit switcher (an isolation and switching device) and the 115 kV terminals of the substation transformer, as shown in the Attachment DTE-4-4.

In summary, the substations rated at 115 kV/13.2 kV and 115 kV/24 kV for Commonwealth, Cambridge, and Boston Edison have facilities and equipment that operate at 115 kV. These facilities are recorded on the respective company's books as transmission costs. The costs of the transformers and other facilities that operate at the lower voltage levels for Commonwealth and Boston Edison are currently classified as distribution. Upon Department approval for the reclassification of Cambridge's transmission facilities to distribution, the transformers and the facilities that operate at the 13.8 kV level within Cambridge's substations will be reclassified as distribution.

Points of Demarcation between Transmission and Distribution Classified Facilities

D.T.E. 06-40 Attachment DTE-4-4



**Estimated Charges for Kendall CT for 2005**
**Assuming No Discount Offered.**

| | CT MWH | $/mwh 0.0051 |
|---|---|---|
| January | 63,065 | $ 319,143 |
| February | 177,358 | $ 897,526 |
| March | 107,943 | $ 546,246 |
| April | 102,536 | $ 518,884 |
| May | 96,105 | $ 486,343 |
| June | 100,675 | $ 509,465 |
| July | 97,223 | $ 491,999 |
| August | 108,872 | $ 550,951 |
| Septemb | 105,149 | $ 532,108 |
| October | 79,610 | $ 402,866 |
| Novembe | 8,787 | $ 44,466 |
| Decembe | 5,451 | $ 27,583 |
| | | $ 5,327,581 |

1) Assumes CT is taking Non-Firm Point-to-Point service.
2) The rate is based on estimate of 2005 charges.
Actual 2005 charge not yet available.